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SUBJECT: EMPLOYMENT ADJUSTMENT SUBSIDY APPLICATIONS RISING

REF: A. TOKYO 850

[B.](#) TOKYO 514

Summary

[11.](#) (SBU) Company applications for the GOJ's Employment Adjustment Subsidy have increased dramatically over the past six months and now cover more than 2.9 million workers. The program is designed to keep workers on a company's rolls rather than put them in unemployment or other social safety net schemes, according to government officials, and new provisions provide incentives for companies to hold on to contract and "dispatch" workers. Program funding in the regular FY2009 budget is inadequate and it appears additional funding will be provided as part of PM Aso's supplementary budget proposal. Given the holes in Japan's unemployment insurance scheme, the program may be an effective way to channel relief to workers, but it could distort the unemployment picture and reduce the flexibility of the labor market. End summary.

Applications for Subsidy Up Sharply

[12.](#) (SBU) Company applications for the GOJ's Employment Adjustment Subsidy increased dramatically in the past six months, according to statistics from the Ministry of Health, Labor, and Welfare (MHLW). In September, 107 companies applied for funds to support 2,970 workers. By February, the latest statistics available, monthly applications had jumped to 30,621 companies covering 1.9 million workers. Aggregated between April 2008 and February 2009, companies applied for funds for more than 2.9 million workers -- almost 250 times higher than the 11,730 workers targeted in the comparable 2007-08 period. Approvals for the payments are significantly lower, but nevertheless are also rising rapidly -- monthly approvals tripled from January to February -- and typically lag applications by several months, according to MHLW officials.

Employment Adjust Subsidy: The Basics

¶13. (SBU) Japan's Employment Adjustment Subsidy is designed to keep workers on a company's rolls rather than in unemployment or other social safety net schemes, MHLW officials report. The aim, they said, is to minimize the substantial costs to companies and workers that come with terminations, job searches, and retraining. Moreover, the program includes incentives for additional worker training during work slowdowns or stoppages.

¶14. (U) Companies that see a five percent decline in either production or sales over a three-month period (vis-a-vis the comparable period in the previous year) qualify for assistance. Japan's Labor Standards Law requires companies to pay 60 percent of a worker's basic pay during layoff periods, and payments under the program go to defray that cost. There are also payments available to support worker training during layoff periods.

¶15. (U) The payments differ by company size. For large companies, funding under the program can cover 75 percent of mandated layoff wages and up to 1,200 yen per employee per day for training costs. For small and medium-size enterprises (SMEs), the funding can cover 90 percent of mandated layoff wages and up to 6,000 yen per employee per day for training costs. (Note: MHLW recently increased the payments to the listed 75 percent for big companies and 90 percent for SMEs. The payments were formerly 66 percent and 80 percent, respectively. End note.)

¶16. (U) The overall payment benefit is capped at 7,730 yen

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(\$77) per day per employee. Once a company qualifies, it remains eligible for 12 months, at which point the company can be re-evaluated for another year's benefits.

Program Expansion: Contract and Dispatch Workers

¶17. (SBU) To preserve employment of so-called "non-regular" workers, specifically those on fixed-term contracts or temporarily on "dispatch" from staffing agencies, MHLW added measures April 1 that give companies incentives to cut the overtime of regular, career workers instead of firing temporary staff or decreasing their numbers through an attrition policy of letting short-term contracts lapse. Non-regular workers, MHLW officials noted, have been among the hardest hit by the economic downturn and are among the least likely to qualify for unemployment benefits.

¶18. (U) A company becomes eligible for the benefits if it can show that, over the past six months, it has reduced average worker overtime by at least half (with a minimum five hour reduction) and has not reduced its workforce through layoffs or attrition of non-regular workers. A company is allowed some flexibility to account for normal personnel turnover, but is required to maintain a sizable workforce, defined as at least 80 percent of the personnel it employed six months earlier. Qualifying large companies receive a lump sum of 200,000 yen a year for fixed-term contractors and 300,000 yen a year per dispatch worker. Small and medium-sized enterprises receive 300,000 yen per year for fixed-term contractors and 450,000 yen annually per dispatch worker. Companies may not claim benefits for more than 100 "saved" workers.

Budgeting

¶19. (SBU) Asked about costs and budgeting for the Employment Adjustment Subsidy, MHLW officials were coy and claimed the Ministry does not have a good cost projection for the program. They pointed out the FY2009 budget sets aside 58 billion yen (about \$580 million), but conceded that amount -- at around \$300 per worker application for the month of February alone -- will be insufficient.

¶10. (SBU) Citing ongoing discussions within the government,

MHLW officials declined to speculate on what funding may be allocated under a proposed supplementary budget. Prime Minister Aso's outline of the fiscal stimulus package supported by the budget (ref A) gives a headline figure of 2.5 trillion yen (\$25 billion) in spending for "strengthening employment." Actual new spending will be less, however, and it is unclear what programs will fall under the umbrella of the employment measures that are to be strengthened.

Comment

T11. (SBU) The increasing use of the Employment Adjustment Subsidy, while keeping workers out of official unemployment statistics, is one more indicator of how hard the economic downturn has hit Japanese companies. Given the deficiencies of Japan's unemployment insurance scheme (ref B), the program may be an effective way to channel relief to workers who would otherwise fall through the holes in the country's social safety net. The program's name, however, is somewhat ironic, as its measures can keep workers at struggling firms and reduce the adjustments that would make for a more flexible and dynamic labor market.

ZUMWALT